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Paper Products Industry Perspective

4TH QUARTER 2013



INDUSTRY

INFORMATION

>> Total North American demand for printing and writing paper declined 2.1% year-over-year through November 2013.

>> Newsprint exports account for approximately 45% of total North American production.

RECENT VALUATION/ LIQUIDATION EXPERIENCE

- NewPage Corp.
- Resolute Forest Products
- Verso Paper Corp.
- Catalyst Paper
- Unisource Worldwide, Inc.
- Global Tissue Group, Inc.
- Port Hawkesbury Paper
- Twin Rivers Paper Co.

Verso to acquire NewPage

By Jesse Marzouk

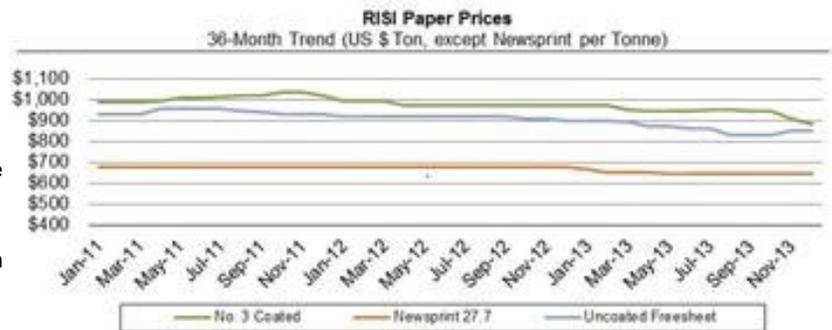
In a transaction that would create the highest level of industry concentration in any paper market in North America, Verso Paper announced the proposed acquisition of NewPage Corp. The transaction values NewPage at \$1.4 billion and will be funded with a combination of cash, debt, and Verso stock. According to Dave Paterson, the CEO of Verso, the acquisition would create \$175 million in synergies on an annual basis.

The acquisition would create the largest coated paper manufacturer in North America, with approximately 54% of coated capacity, including 53% market share in coated freesheet and 57% in coated groundwood. Combined with SAPPi, who maintains approximately 25% market share, the top two producers would control nearly 80% of North American capacity.

The acquisition is subject to regulatory approval from the De-

partment of Justice (DOJ). Normally a transaction that creates an entity with more than 50% market share in an industry is viewed negatively by the DOJ. In certain circumstances, however, such a

foreseeable future. More recently, and what may have been the final push for a transaction between Verso and NewPage, the catalog printing season in the fall was notably weak and has result-



transaction may be approved. One needs look no further than the merger of Abitibi Consolidated and Bowater in 2007, which created an entity with more than 50% of newsprint capacity in North America. And while the coated paper market dynamics are not nearly as bleak as the newspaper market, annual demand declines in North America for coated paper have been occurring for the last decade and likely will continue for the

ed in coated paper prices falling sharply over the last few months. The largest beneficiaries of the transaction likely will be the coated paper producers in North America, who presumably will benefit from pricing discipline resulting from consolidation and machine closures. Uncoated freesheet producers may also benefit as coated paper producers had recently been making increasing amounts of uncoated freesheet to fill their machines.

Jesse Marzouk is a vice president and forestry products specialist. He has appraised numerous U.S. and Canadian pulp, paper, and lumber-related companies involved in manufacturing and distribution. Jesse received his MBA in finance from Kellogg School of Management at Northwestern University, and has a degree in finance and accounting from Indiana University.

